

**Cumberland County
Tim Hicks, County Judge/Executive
Fiscal Court Audit**

For the Year Ended June 30, 2005

Jones & Ritchie, PSC has completed the audit of the Cumberland County Fiscal Court for the year ended June 30, 2005, and has issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Cumberland County, Kentucky.

The financial statements of Cumberland County Hospital Association, Inc., a discretely presented component unit, has been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Cumberland County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component unit.

Financial Condition:

The County had net assets of \$1,533,309, which included \$363,433 of unrestricted net assets in its governmental activities as of June 30, 2005. The Fiscal Court's discretely presented component unit had net assets of \$4,208,663 as of June 30, 2005. The discretely presented component unit had net cash and cash equivalents of \$2,778,463. The Fiscal Court had total debt principal as of June 30, 2005 of \$5,852,767 with \$277,273 due within the next year. The discretely presented component unit had total debt principal as of June 30, 2005 of \$2,146,000 with \$77,000 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

The component units' deposits were uninsured and uncollateralized by bank securities or bonds.

CONTENTS

	PAGE
Independent Auditor's Report.....	1 – 2
Cumberland County Officials.....	3
Management's Discussion and Analysis	4 – 11
Government-wide Financial Statements.....	12
Statement of Net Assets – Modified Cash Basis.....	13 – 14
Statement of Activities – Modified Cash Basis	15 – 16
Fund Financial Statements.....	17
Balance Sheet – Governmental Funds – Modified Cash Basis.....	18 – 19
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds - Modified Cash Basis.....	20 – 21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities –	
Modified Cash Basis.....	22
Notes to the Financial Statements.....	23 – 38
Required Supplementary Information.....	39
Budgetary Comparison Schedules – Major Funds – Modified Cash Basis	40 – 42
Notes to the Required Supplementary Information	43
Other Supplementary Information	44
Combining Balance Sheet – Non-major Governmental Funds – Modified Cash Basis.....	45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –	
Non-major Governmental Funds - Modified Cash Basis.....	46 – 47
Report on Internal Control over Financial Reporting and on Compliance and Other	
Matters Based on an Audit of the Financial Statements Performed in Accordance	
With <u>Government Auditing Standards</u>	48 – 50
Appendix A:	
Certificate of Compliance – Local Government Economic Assistance Program.....	51 – 52

JONES**MITCHELL, PSC****CERTIFIED PUBLIC ACCOUNTANTS**

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ♦ (859) 269-1949

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cumberland County, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. Those financial statements reflect 100% of the assets and revenues of the discretely presented component unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

As described in Note 1, Cumberland County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit, are presented according to accounting principles generally accepted in the United States of America. This basis of accounting is different from the modified cash basis of accounting in that certain accruals of assets, liabilities, revenues, and expenses are made to the financial statements of the Cumberland County Hospital Association, Inc. that are not recognized under the modified cash basis of accounting used in preparing the financial statements of Cumberland County, Kentucky. The amounts by which these departures affect the assets, liabilities, revenues, and expenses of the financial statements are 44.0%, 31.5%, 8.1%, and 10.0%, respectively.

In our opinion, based on our audit and the report of the other auditors, except for the effects of the departures discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court
(Continued)

respects, the financial position of the discretely presented component unit of Cumberland County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cumberland County, Kentucky's basic financial statements. The accompanying supplementary information, which consists of combining fund financial statements, is presented for additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2006, on our consideration of Cumberland County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC
Certified Public Accountants

Audit Fieldwork Completed –
July 20, 2006

Cumberland County Officials

June 30, 2005

Fiscal Court Members:

Tim Hicks	County Judge/Executive
Thomas J. Brown	Magistrate
Edward Anderson	Magistrate
James V. Groce	Magistrate
Dewey Earl Branham	Magistrate

Other Elected Officials:

Lindsey Bell	County Attorney
Rondall Wray	Jailer
Lynn Cyphers	County Clerk
James Pruitt	Sheriff
Hazel Jones	Circuit Court Clerk
Gina Shaye Watson	Property Valuation Administrator
Gary White	Coroner

Appointed Personnel:

Stacey Thrasher	County Treasurer
Stacey Thrasher	Occupational Tax Collector
Eugenia Ferguson	Deputy Judge/County Finance Officer

Note: List of officials who were in office as of June 30, 2005.

Cumberland County Management's Discussion and Analysis

June 30, 2005

The financial management of Cumberland County, Kentucky offers readers of Cumberland County's financial statements this narrative overview and analysis of the financial activities of Cumberland County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Cumberland County had net assets of \$1,533,309 as of June 30, 2005. The fiscal court had unrestricted net assets of \$363,433 in governmental activities as of June 30, 2005. Total debt for governmental activities as of June 30, 2005 was \$5,852,767 with \$277,273 due within one year.
- The governmental activities' total net assets increased by \$342,166 from the prior year. This increase was primarily due to an increase in operating grants.
- At the close of the current fiscal year, Cumberland County governmental funds reported fund balances of \$683,553. Of this amount, \$598,087 is available for spending at the government's discretion (unreserved fund balance).
- Cumberland County's total indebtedness at the close of fiscal year June 30, 2005 was \$5,852,767, of which \$5,575,494 is long-term debt (due after 1 year) and \$277,273 is short-term debt (to be paid within 1 year). Debt additions were \$62,755, and debt reductions were \$265,224 for a net decrease of \$202,469 for the year.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Cumberland County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source and program expenses by function.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Cumberland County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Cumberland County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of Cumberland County.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Government-wide Financial Statements (Continued)

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) are not recorded. In addition, accounts payable (expenses for goods and services received but not paid) and compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Cumberland County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, transportation facilities and services, roads, debt service, and capital projects. Cumberland County does not have a business type activity.

The government-wide financial statements include not only Cumberland County (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Cumberland County has two: Cumberland County Hospital Association, Inc., which is described as a major discretely presented component unit and the Cumberland County Public Properties Corporation which is described as a blended component unit.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Cumberland County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Cumberland County are *governmental funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Governmental Funds (Continued)

Cumberland County maintains (8) eight individual governmental funds. Information is presented separately for the major funds and is combined for the non-major funds in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The funds are:

Major Funds –

- General Fund
- Road Fund
- Public Properties Corporation Justice Center Construction Fund

Non-major Funds –

- Jail Fund
- Local Government Economic Assistance Fund
- Grant Fund
- Fire Protection Fund
- Public Properties Corporation Justice Center Bond Fund

Cumberland County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund and Road Fund to demonstrate compliance with their budgets.

Discretely Presented Component Units

Component Units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component Units operate similarly to private sector businesses. Cumberland County has only one discretely presented component unit, the Cumberland County Hospital Association, Inc. This component unit's financial information is included on the government-wide financial statements of Statement of Net Assets and the Statement of Activities in a separate column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Financial Analysis of the County as a Whole

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Cumberland County's Net Assets

	Governmental Activities	
	2004	2005
Assets		
Current and other assets	\$ 1,654,154	\$ 683,553
Capital assets	<u>5,592,224</u>	<u>6,702,523</u>
Total Assets	\$ <u>7,246,378</u>	\$ <u>7,386,076</u>
Liabilities		
Current and other liabilities	\$ 255,112	\$ 277,273
Long-term liabilities	<u>5,800,124</u>	<u>5,575,494</u>
Total Liabilities	\$ <u>6,055,236</u>	\$ <u>5,852,767</u>
Net Assets		
Invested in capital assets, net of related debt	\$ (463,012)	\$ 849,756
Restricted	1,250,335	320,120
Unrestricted	<u>403,819</u>	<u>363,433</u>
Total Net Assets	\$ <u>1,191,142</u>	\$ <u>1,533,309</u>

Changes in Net Assets

Governmental Activities. Cumberland County's net assets increased by \$342,166 in fiscal year 2005. Key elements of this are as follows:

- Current assets and cash decreased \$970,601, due to capital expenditures from Cumberland County Public Properties Corporation Justice Center Construction Fund.
- Capital assets increased \$1,110,299 due to the completion of the Justice Center and the purchase of additional infrastructure capital assets of \$164,521, net of depreciation.
- Investment in capital assets and infrastructure, net of related debt increased by \$1,312,768 primarily due to the completion of the Justice Center as noted above and the inclusion of infrastructure (roads and bridges) capital assets.
- Current and long-term liabilities decreased by \$202,469, due to payments on the debt.

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Financial Analysis of the County as a Whole (Continued)

Table 2
Cumberland County's Statement of Activities

	Governmental Activities		Amount Variance	Percentage Change
	2004	2005		
Revenues:				
General	\$ 714,790	\$ 647,677	\$ (67,113)	(9%)
Charges for services	16,865	7,793	(9,072)	(54%)
Operating grants	1,280,342	1,758,395	478,053	37%
Total	\$ 2,011,997	\$ 2,413,865	\$ 401,868	20%
Expenses:				
General government	\$ 770,579	\$ 896,809	\$ 126,230	16%
Protection to persons and property	248,288	171,180	(77,108)	(31%)
General health and sanitation	65,772	99,636	33,864	51%
Social services	65,460	845	(64,615)	(99%)
Recreation and culture	40,133	48,482	8,349	21%
Transportation facilities and services	3,752	5,029	1,277	34%
Roads	549,502	555,251	5,749	1%
Debt service	248,192	232,497	(15,695)	(6%)
Capital projects	53,944	61,970	8,026	15%
Total	\$ 2,045,622	\$ 2,071,699	\$ 26,077	1%

Financial Analysis of the County's Funds

As noted earlier, Cumberland County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Cumberland County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2005, the combined ending fund balances of the County's governmental funds were \$683,553. Approximately 87% (\$598,087) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$85,466) is reserved to indicate that it is not available for new spending because it is committed for the various encumbrances and for a grant project.

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Financial Analysis of the County as a Whole (Continued)

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview (Continued).

The County has three major governmental and five non-major governmental funds as follows:

Major Funds –

- General Fund
- Road Fund
- Public Properties Corporation Justice Center Construction Fund

Non-major Funds –

- Jail Fund
- Local Government Economic Assistance Fund
- Grant Fund
- Fire Protection Fund
- Public Properties Corporation Justice Center Bond Fund

1. The **General Fund** is the chief operating fund of Cumberland County. At the end of June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$67,606, while total fund balance was \$153,072. The County received \$521,367 in real and personal property, motor vehicle, occupational, and other taxes for approximately 64% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 36% of revenues.
2. The **Road Fund** accounts for the County's construction and maintenance of its roads and bridges. The Road Fund had a \$249,695 fund balance at June 30, 2005. The fiscal year 2005 expenditures for the Road Fund were \$1,068,582.
3. The **Cumberland County Public Properties Corporation Justice Center Construction Fund** at the end of June 30, 2005, had a fund balance of \$236,111. These funds are restricted for capital construction of the Justice Center.
4. The **Jail Fund** had a fund balance of \$10,025 as of June 30, 2005, a decrease of \$2,421 over the previous fiscal year end.
5. The **Local Government Economic Assistance Fund** had a fund balance of \$19,049 as of June 30, 2005, a decrease of \$1,811 over the previous fiscal year end.
6. The **Grant Fund** had a balance of \$3,460 as of June 30, 2005 and is used to account for federal or state monies received. The County received \$44,180 in funds for various projects.
7. The **Fire Protection Fund** had a fund balance of \$12,095 as of June 30, 2005, an increase of \$884 over the previous fiscal year end.
8. The **Cumberland County Public Properties Corporation Justice Center Bond Fund** had a fund balance of \$46 as of June 30, 2005. These funds are restricted for debt service.

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

General Fund Budgetary Highlights

Cumberland County's General Fund budget was amended during the fiscal year increasing the budgeted amount by \$330,594. Budget amendments were made to various expenditures due to grants awarded in the fiscal year, surplus cash carried forward, short term borrowed money, and an increase in taxes revenue.

Actual revenues were \$60,762 short of the budget. This variance was due primarily to a decrease in miscellaneous revenue, offset by an increase in tax revenue.

Capital Assets and Debt Administration

Capital Assets. Cumberland County's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$6,702,523 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, other equipment, vehicles and equipment, infrastructure (roads and bridges), and construction in progress for Justice Center construction. Cumberland County has elected to report infrastructure capital assets (roads and bridges) as of July 1, 2003 and forward in accordance with GASB 34 provisions.

Major capital asset events during the 2005 fiscal year included the continued construction of the Justice Center, which was completed during the fiscal year.

Additional information of the County's capital assets can be found in Note 4 of this report.

Table 3
Cumberland County's Capital Assets, Net of Accumulated Depreciation

Governmental Activities		2004	2005
Construction in progress	\$	3,976,119	\$ 74,598
Land		607,558	636,344
Buildings		231,137	4,977,030
Other equipment		282,909	303,206
Vehicles and equipment		38,253	115,077
Infrastructure		456,248	596,448
Total net capital assets	\$	<u>5,592,244</u>	\$ <u>6,702,523</u>

Cumberland County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Capital Assets and Debt Administration (Continued)

Long-Term Debt. At the end of the 2005 fiscal year, Cumberland County had total long-term debt outstanding of \$5,852,767. The totals are as follows: Mortgage Revenue Bonds of \$5,755,000, one capital lease of \$41,212, and two financing obligations of \$56,555.

Short-Term Debt. During the fiscal year 2005, the County had a total of \$203,800 in short term loans (Kentucky Advanced Revenue Program). As of June 30, 2005 these loans were repaid. Additional information on the County's debt can be found in Notes 5 and 6 of this report.

Other Matters

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget:

- The 2006 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- Economic factors indicate continued growth for Cumberland County.

Requests for Information

This financial report is designed to provide a general overview of Cumberland County's finances. Questions concerning any of the information provided or requests for additional financial information should be addressed to the Cumberland County Treasurer, P. O. Box 826, Burkesville, Kentucky 42717-0826.

Questions concerning the audit report of the Cumberland County Hospital Association, Inc. should be addressed to the Chief Financial Officer, P. O. Box 280, Burkesville, Kentucky 42717.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Cumberland County
Statement of Net Assets - Modified Cash Basis

June 30, 2005

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Cumberland County Hospital Association, Inc.</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 683,553	\$ 2,778,463
Accounts receivable		1,430,251
Supplies		209,436
Prepaid expenses		184,523
	<hr/>	<hr/>
Total current assets	\$ 683,553	\$ 4,602,673
	<hr/>	<hr/>
Non-current assets:		
Capital assets - Net of accumulated depreciation		
Construction in progress	\$ 74,598	\$
Land and land improvements	636,344	122,506
Buildings	4,977,030	2,251,991
Other equipment	303,026	364,522
Vehicles and equipment	115,077	
Infrastructure assets - Net of accumulated depreciation	596,448	
	<hr/>	<hr/>
Total non-current assets	\$ 6,702,523	\$ 2,739,019
	<hr/>	<hr/>
Total assets	\$ 7,386,076	\$ 7,341,692
	<hr/>	<hr/>
Liabilities		
Current liabilities:		
Bonds payable	\$ 220,000	\$ 77,000
Capital lease obligations	23,125	
Financing obligations	34,148	
Accounts payable		248,916
Accrued interest		53,450
Accrued payroll and taxes		325,266
Estimated amounts due to third party payers		339,362
	<hr/>	<hr/>
Total current liabilities	\$ 277,273	\$ 1,043,994
	<hr/>	<hr/>

Cumberland County
Statement of Net Assets - Modified Cash Basis
June 30, 2005
(Continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Cumberland County Hospital Association, Inc.</u>
Liabilities (Continued)		
Noncurrent liabilities:		
Bonds payable	\$ 5,535,000	\$ 2,069,000
Capital lease obligations	18,087	
Financing obligations	22,407	
Deferred revenue		20,035
	<u>5,575,494</u>	<u>2,089,035</u>
Total noncurrent liabilities	\$ 5,575,494	\$ 2,089,035
Total liabilities	\$ 5,852,767	\$ 3,133,029
Net assets		
Invested in capital assets, net of related debt	\$ 849,756	\$ 593,019
Restricted for:		
Capital projects	236,111	
Debt service	46	107,348
Grant projects	83,963	
Unrestricted	<u>363,433</u>	<u>3,508,296</u>
Total net assets	\$ <u>1,533,309</u>	\$ <u>4,208,663</u>

The accompanying notes are an integral part of the financial statements.

Cumberland County
Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2005

Functions/programs Reporting entity	Program Revenues Received		Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contri- butions	Primary Government
				Component Unit Cumberland County Hospital Association, Inc.
Primary government				
Governmental activities:				
General government	\$ 896,809	\$ 7,793	\$ 755,506	\$ (133,510)
Protection to persons and property	171,180			(171,180)
General health and sanitation	99,636			(99,636)
Social services	845			(845)
Recreation and culture	48,482			(48,482)
Transportation facilities and services	5,029			(5,029)
Roads	555,251		1,002,889	447,638
Debt service (interest)	232,497			(232,497)
Capital projects	61,970			(61,970)
Total governmental activities	\$ 2,071,699	\$ 7,793	\$ 1,758,395	\$ (305,511)
Total primary government	\$ 2,071,699	\$ 7,793	\$ 1,758,395	\$ (305,511)
Component unit				
Cumberland County Hospital Association, Inc.	\$ 8,898,723	\$ 8,847,336		(51,387)

Cumberland County
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2005
(Continued)

	Net (Expenses) Revenues and Changes in Net Assets	
	Primary Government	Component Unit Cumberland County Hospital Association, Inc.
General revenues		
Taxes:		
Real property taxes	\$ 91,526	\$
Personal property taxes	17,819	
Motor vehicle taxes and licenses	30,629	
Occupational taxes	303,586	
Other taxes	111,175	
Excess fees	6,431	
Intergovernmental revenues	49,680	
Unrestricted investment earnings	36,831	46,489
Miscellaneous revenues		205,352
Total general revenues	\$ 647,677	\$ 251,841
Change in net assets	\$ 342,166	\$ 200,454
Net assets - Beginning (restated)	1,191,143	4,008,209
Net assets - Ending	\$ 1,533,309	\$ 4,208,663

The accompanying notes are an integral part of the financial statements.

FUND FINANCIAL STATEMENTS

Cumberland County
Balance Sheet - Governmental Funds - Modified Cash Basis

June 30, 2005

	General Fund	Road Fund	Public Properties Corporation Justice Center Construction Fund	Non- major Funds	Total Govern- mental Funds
Assets					
Cash and cash equivalents	\$ 153,072	\$ 249,695	\$ 236,111	\$ 44,675	\$ 683,553
Total assets	<u>\$ 153,072</u>	<u>\$ 249,695</u>	<u>\$ 236,111</u>	<u>\$ 44,675</u>	<u>\$ 683,553</u>
Fund balances					
Reserved for:					
Encumbrances	\$ 1,503	\$	\$	\$	1,503
Grant project	83,963				83,963
Unreserved:					
General fund	67,606				67,606
Special revenue funds		249,695		44,629	294,324
Capital projects fund			236,111		236,111
Debt service fund				46	46
Total fund balances	<u>\$ 153,072</u>	<u>\$ 249,695</u>	<u>\$ 236,111</u>	<u>\$ 44,675</u>	<u>\$ 683,553</u>

Cumberland County
Balance Sheet - Governmental Funds - Modified Cash Basis
June 30, 2005
 (Continued)

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total fund balances	\$ 683,553
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	7,254,890
Accumulated depreciation	(552,367)
Liabilities in governmental activities are not reported in the funds -	
Current liabilities due within one year	(277,273)
Non-current liabilities due in more than one year	(5,575,494)
Net assets of governmental activities	\$ 1,533,309

The accompanying notes are an integral part of the financial statements.

Cumberland County
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - Modified Cash Basis

For the Year Ended June 30, 2005

	General Fund	Road Fund	Public Properties Corporation Justice Center Construction Fund	Non- major Funds	Total Govern- mental Funds
Revenues					
Taxes	\$ 521,367	\$	\$	3,209	\$ 524,576
In lieu tax payments	30,159				30,159
Excess fees	879				879
License and permits	3,635				3,635
Intergovernmental	227,793	1,003,314		551,527	1,782,634
Charges for services	4			4,154	4,158
Miscellaneous	24,674	271		198	25,143
Interest	8,849	12,456	14,177	1,349	36,831
Total revenues	\$ 817,360	\$ 1,016,041	\$ 14,177	\$ 560,437	\$ 2,408,015
Expenditures					
General government	\$ 468,430	\$ 17,585	\$	13,885	\$ 499,900
Protection to persons and property	16,024			150,888	166,912
General health and sanitation	59,322			38,300	97,622
Social services	845				845
Recreation and culture	48,482				48,482
Transportation facilities and services		5,029			5,029
Roads		803,545			803,545
Debt service	2,227	59,319		436,176	497,722
Capital projects		94,350	917,961		1,012,311

Cumberland County
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2005
(Continued)

	General Fund	Road Fund	Public Properties Corporation Justice Center Construction Fund	Non- major Funds	Total Govern- mental Funds
Expenditures (Continued)					
Administration	\$ 206,762	\$ 88,754	\$	\$ 13,488	\$ 309,004
Total expenditures	\$ 802,092	\$ 1,068,582	\$ 917,961	\$ 652,737	\$ 3,441,372
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ 15,268	\$ (52,541)	\$ (903,784)	\$ (92,300)	\$ (1,033,357)
Other financing sources (uses)					
Financing obligation proceeds	\$	\$ 62,756	\$	\$	\$ 62,756
Transfers from other funds	24,823			90,000	114,823
Transfers to other funds	(90,000)		(24,823)		(114,823)
Total other financing sources (uses)	\$ (65,177)	\$ 62,756	\$ (24,823)	\$ 90,000	\$ 62,756
Net change in fund balances	\$ (49,909)	\$ 10,215	\$ (928,607)	\$ (2,300)	\$ (970,601)
Fund balances - beginning	202,981	239,480	1,164,718	46,975	1,654,154
Fund balances - ending	\$ 153,072	\$ 249,695	\$ 236,111	\$ 44,675	\$ 683,553

The accompanying notes are an integral part of the financial statements.

Cumberland County
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net change in fund balances - Total governmental funds	\$ (970,601)
--	--------------

Governmental funds report capital outlays as expenditures and sales of capital assets as revenues. However, in the Statement of Activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. In addition, the Statement of Activities reports gains and losses on disposals of assets.

Capital outlay	1,278,322
Depreciation expense	(168,024)

Governmental funds report money borrowed as an other financing source and debt principal payments as an expenditure. However, in the Statement of Activities, these payments are excluded.

Proceeds - financing obligations	(62,756)
Payments - financing and capital lease obligations	55,225
Payments - bonds	<u>210,000</u>

Change in net assets of governmental activities	\$ <u><u>342,166</u></u>
---	--------------------------

The accompanying notes are an integral part of the financial statements.

**Cumberland County
Notes to the Financial Statements**

For the Year Ended June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements. However, financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The State Local Finance Officer does not require the County to report capital assets and infrastructure assets. However, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included in the Statement of Activities.

B. Reporting Entity

The financial statements of Cumberland County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. However, the Cumberland County Tourist Commission, a component unit, is excluded from the financial statements because the County only includes material component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Cumberland County Public Properties Corporation

On September 11, 2001, the Cumberland County Fiscal Court (Fiscal Court) established the Cumberland County Public Properties Corporation (Corporation) for the purpose of the acquisition, construction, and financing of public projects for and on behalf of Cumberland County. The Corporation is composed of the five members of the Fiscal Court - the Cumberland County Judge/Executive and the four magistrates - and has perpetual existence. The ability of the Fiscal Court to exercise complete authority over this entity makes it a

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Cumberland County Public Properties Corporation (Continued)

component unit of the County. The financial information for the Cumberland County Public Properties Corporation is blended within Cumberland County's financial statements.

Discretely Presented Component Unit

The following legally separate organization is reported in a separate column labeled "Component Unit" on the Statement of Net Assets and the Statement of Activities to emphasize that this organization is separate from the fiscal court's primary government.

Cumberland County Hospital Association, Inc.

The Cumberland County Fiscal Court does not appoint a voting majority of the Cumberland County Hospital Association, Inc.'s (Association) governing board. However, the Association is headed by the County Judge/Executive and is a legally separate organization set up exclusively to engage in the everyday operations of the Cumberland County Hospital (Hospital). The Fiscal Court owns the Hospital's land, building, and equipment and is financially accountable and legally obligated for the debt of the Hospital. Exclusion of this entity as a component unit of Cumberland County would cause the county's financial statements to be misleading or incomplete. The financial information for the Association is presented discretely within Cumberland County's financial statements.

Audited financial statements for the Cumberland County Hospital Association, Inc., a discretely presented component unit, may be requested by contacting the Cumberland County Hospital, P. O. Box 280, Burkesville, Kentucky 42717.

C. Cumberland County Elected Officials

Kentucky law provides for election of officials from the geographic area constituting Cumberland County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements, which are not required to be included in the financial statements of Cumberland County, Kentucky, are issued separately and individually, and can be obtained from their respective administrative offices.

Cumberland County has the following elected officials:

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff, and

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

- Property Valuation Administrator

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Cumberland County did not have any business-type activities during the fiscal year.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (government or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Cumberland County Public Properties Corporation Justice Center Construction Fund - This fund accounts for the activities of the Cumberland County Public Properties Corporation, a blended component unit of the county. The Cumberland County Public Properties Corporation issued debt to build a Justice Center facility. The Cumberland County Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of the Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Grant Fund, Fire Protection Fund, and Cumberland County Public Properties Corporation Justice Center Bond Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount on November 30, due at face value on December 31, delinquent on January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Grant Fund, and Fire Protection Fund are presented as *special revenue funds*. Special revenue funds account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund

The Cumberland County Public Properties Corporation Justice Center Construction Fund is presented as a Capital projects fund. Capital projects funds account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund

The Cumberland County Public Properties Corporation Justice Center Bond Fund is presented as a *debt service fund*. Debt service funds account for the accumulation of resources for, and payment of, general long-term debt principal and interest.

Presentation of Component Unit

The financial statements present the following major discretely presented component unit: Cumberland County Hospital Association, Inc.

The component unit is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize that the organization exists separate from the fiscal court's primary government.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following including, but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240 (4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure assets are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

The County has chosen to report only infrastructure assets (roads and bridges) placed in service on or after July 1, 2003, as permitted by GASB 34. These infrastructure assets are reported at actual historical cost using the following capitalization threshold and are depreciated using the following useful lives:

	Capitalization Threshold	Useful Life Years
Infrastructure	\$ 20,000	20 – 40
Land improvements	10,000	20 – 25
Buildings and improvements	25,000	10 – 60
Vehicles	5,000	5 – 20
Machinery and equipment	5,000	5 – 20

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long - term Obligations

In the government-wide financial statements, long - term debt and other long - term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Cumberland County Public Properties Corporation (blended component unit) and the Cumberland County Hospital Association, Inc. (discretely presented component unit) Funds are not budgeted by the county treasurer. The Governor's Office for Local Development does not require the Fiscal Court to budget or report these funds.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Cumberland County Water District is considered a related organization of the Cumberland County Fiscal Court:

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered as joint ventures of the Cumberland County Fiscal court.

- Cumberland-Burkesville Nursing Home Corporation (with the City of Burkesville) and the
- Tri-County Animal Control (with Clinton County Fiscal Court and Wayne county Fiscal Court).

L. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Burkesville-Cumberland County Industrial Development Authority is considered a jointly governed organization of the Cumberland County Fiscal court.

Note 2. Deposits

The primary government and discretely presented component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 64.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. To be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, which is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and the approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met for the County.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's or component unit's deposits may not be returned. The government or component unit does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits of the County were covered by FDIC insurance or a properly executed collateral security agreement.

However, as of June 30, 2005, the component unit's deposits were exposed to custodial credit risk as follows:

- \$2,395,000 uninsured and unsecured.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 3. Employee Retirement System

The County has elected to participate in the County Employee Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 4. Capital Assets

Capital asset activity for governmental activities of the primary government for the year ending June 30, 2005 was as follows:

Primary Government				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 3,976,119	\$ 927,382	\$ 4,828,903	\$ 74,598
Land	607,558	28,786		636,344
Capital assets being depreciated:				
Buildings	355,392	4,828,903		5,184,295
Other equipment	458,572	68,772		527,344
Vehicles and equipment	104,255	88,861		193,116
Infrastructure	474,671	164,521		639,192
Total capital assets	\$ 5,976,567	\$ 6,107,225	\$ 4,828,903	\$ 7,254,889
Less: Accumulated depreciation	384,343	168,024		552,367
Government activities capital assets, net	\$ 5,592,224	\$ 5,939,201	\$ 4,828,903	\$ 6,702,522

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 87,905
Protection to Persons and Property	4,268
General Health and Sanitation	2,014
Roads, Including Depreciation of General Infrastructure Assets	\$ 73,837

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Total Depreciation Expense – Government Activities	\$	168,024
--	----	---------

Note 4. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit, Cumberland County Hospital Association, Inc., for the fiscal year ending June 30, 2005 was as follows:

Discretely Presented Component Unit				
	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and land improvements	\$ 262,310	\$	\$	\$ 262,310
Construction in progress	15,342		15,342	
Capital assets being depreciated:				
Buildings	3,512,466	15,617		3,528,083
Equipment	3,032,299	69,917		3,102,216
Total capital assets	\$ 6,822,417	\$ 85,534	\$ 15,342	\$ 6,892,609
Less: Accumulated depreciation	3,873,077	280,513		4,153,590
Capital assets, net	\$ 2,949,340	\$ (194,979)	\$ 15,342	\$ 2,739,019

Depreciation expense of \$280,513 was charged to functions of the discretely presented major component unit as follows:

Discretely Presented Component Unit:

Cumberland County Hospital Association, Inc.	\$	280,513
--	----	---------

Note 5. Long-Term Debt

A. Revenue Bonds – Primary Government

Cumberland County Public Properties Corporation Mortgage Revenue Bonds – Series 2002

On December 23, 2002, the Cumberland County Public Properties Corporation issued \$5,560,000 of

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

mortgage revenue bonds for the purpose of constructing a Justice Center facility. The bonds mature serially through September 1, 2023 and require annual principal payments on September 1 and semi-annual interest

Note 5. Long-term Debt (Continued)

A. Revenue Bonds – Primary Government (Continued)

Cumberland County Public Properties Corporation Mortgage Revenue Bonds – Series 2002 (Continued)

payments at rates ranging from 2.00% to 4.5% on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2005 were \$5,360,000.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 205,958	\$ 205,000
2007	201,858	210,000
2008	197,134	215,000
2009	191,758	220,000
2010	185,435	225,000
2011 – 2015	808,513	1,255,000
2016 – 2020	542,140	1,535,000
2021 – 2024	171,900	1,495,000
Total	\$ 2,504,696	\$ 5,360,000

Cumberland County Public Properties Corporation Mortgage Revenue Bonds – Series 2004

On February 4, 2004, the Cumberland County Public Properties Corporation issued \$405,000 of mortgage revenue bonds to complete the construction of the Justice Center facility. The bonds mature serially through September 1, 2023 and require annual principal payments on September 1 and semi-annual interest payments at the rate of 4.2% on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2005 were \$395,000.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 5. Long-term Debt

A. Revenue Bonds – Primary Government (Continued)

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 16,590	\$ 15,000
2007	15,960	15,000
2008	15,330	15,000
2009	14,700	15,000
2010	14,070	15,000
2011 – 2015	59,640	95,000
2016 – 2020	38,220	115,000
2021 – 2024	11,970	110,000
Total	\$ 109,830	\$ 395,000

B. Capital Lease Obligations – Primary Government

Road Grader

On April 24, 2002, the Cumberland County Fiscal Court entered into a capital lease agreement with Caterpillar Financial Services Corporation for the purchase of a road grader for the county road department. The principal was \$109,492 at an effective interest rate of 4.8 percent for a period of five years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2005 was \$41,212.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 1,449	\$ 23,125
2007	344	18,087

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Total	\$	<u>1,793</u>	\$	<u>41,212</u>
-------	----	--------------	----	---------------

Note 5. Long-term Debt (Continued)

C. Financing Obligations – Primary Government (Continued)

Tractor/Mower

On July 24, 2003, Cumberland County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a tractor/mower for the county road department. The principal was \$45,683 at an effective interest rate of 2.175 percent for a period of two years, with interest and principal paid monthly. The principal balance outstanding as of June 30, 2005 was \$3,912. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	15	\$	3,912
Total	\$	<u>15</u>	\$	<u>3,912</u>

Tractor/Mower

On December 22, 2004, Cumberland County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a tractor/mower for the county road department. The principal was \$62,756 at an effective interest rate of 2.62 percent for a period of two years, with interest and principal paid monthly. The principal balance outstanding as of June 30, 2005 was \$52,643.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	1,038	\$	30,236
2007		203		22,407
Total	\$	<u>1,241</u>	\$	<u>52,643</u>

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes in Long-term Debt – Primary Government

		Beginning Balance		Additions		Reductions		Ending Balance		Due Within One Year
Revenue bonds	\$	5,965,000	\$		\$	210,000	\$	5,755,000	\$	220,000
Capital lease obligations		63,256				22,044		41,212		23,125
Financing obligations		26,980		62,755		33,180		56,555		34,148
Total	\$	6,055,236	\$	62,755	\$	265,224	\$	5,852,767	\$	277,273

E. Revenue Bonds – Discretely Presented Component Unit

Cumberland County Health Services Corporation Mortgage Revenue Bonds – Series 1992

In 1992, the Cumberland County Hospital Association, Inc. entered into a lease agreement and trust indenture with the Cumberland County Fiscal Court to pay principal and interest on a Series 1992 bond issue to finance the construction of an addition to the Cumberland County Hospital. The bonds mature serially through January 1, 2022, and require annual principal and interest payments at rates ranging from 5.25% to 6.75% with payments due on January 1. The bonds are to be collateralized by all revenues generated by the Cumberland County Hospital. Under the terms of the lease agreement and trust indenture, the Cumberland County Hospital is required to maintain certain deposits with a trustee. Bonds outstanding for the Cumberland County Health Services Corporation, a public, nonprofit governmental corporation that leases the land and building utilized by the Hospital to Cumberland County, as of June 30, 2005 were \$2,146,000.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

E. Revenue Bonds – Discretely Presented Component Unit (Continued)

Cumberland County Health Services Corporation Mortgage Revenue Bonds – Series 1992 (Continued)

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 107,300	\$ 77,000
2007	103,450	81,000
2008	99,400	86,000
2009	95,100	91,000
2010	90,550	97,000
2011 – 2024	374,350	575,000
2016 – 2020	212,650	765,000
2021 – 2022	28,350	374,000
Total	\$ 1,111,150	\$ 2,146,000

F. Changes in Long-term Debt – Discretely Presented Component Unit

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Revenue bonds	\$ 2,219,000	\$	\$ 73,000	\$ 2,146,000
Business-type activities - Long-term liabilities	\$ 2,219,000	\$	\$ 73,000	\$ 2,146,000

Note 6. Short-term Debt

On July 1, 2004, the Cumberland County Fiscal Court participated in the Kentucky Association of Counties Kentucky Advanced Revenue Program by depositing the borrowed funds into their General Fund in the amount of \$203,800, with principal being due in January 2005. The county used the borrowed funds to meet current General Fund Expenses.

Cumberland County
Notes to the Financial Statements
June 30, 2005
(Continued)

Note 6. Short-term Debt (Continued)

Primary Government:		Beginning Balance		Additions		Reductions		Ending Balance
<u>Governmental activities:</u>								
Kentucky Advanced Revenue Program	\$		\$	203,800	\$	203,800	\$	
Governmental activities - Short-term liabilities	\$			203,800	\$	203,800	\$	

Note 7. Interest Included in Debt Service

Debt service on the Statement of Activities includes the following: short – term interest paid of \$2,226 for Kentucky Advanced Revenue Program borrowed money, long – term interest paid of \$1,561 on financing obligations, interest paid of \$2,533 on capital lease obligations, and interest paid of \$226,177 on bonds and notes.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Cumberland County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for the payment of the excess losses.

Note 9. Prior Period Adjustment

The prior period adjustment of \$48,459 consists of adjustments to capital assets to reflect the omission of an asset and to adjust for assets, which were disposed of in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

Cumberland County
Budgetary Comparison Schedules - Major Funds
Required Supplementary Information -
Modified Cash Basis

For The Year Ended June 30, 2005

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	
	Original	Final		
Revenues				
Taxes	\$ 455,000	\$ 476,042	\$ 521,367	\$ 45,325
In lieu tax payments	21,000	24,423	30,159	5,736
Intergovernmental	194,728	231,843	227,793	(4,050)
Excess fees	700	700	879	179
Licenses and permits	1,400	2,370	3,635	1,265
Charges for services			4	4
Miscellaneous	90,000	134,744	24,674	(110,070)
Interest	8,000	8,000	8,849	849
Total revenues	\$ 770,828	\$ 878,122	\$ 817,360	\$ (60,762)
Expenditures				
General government	\$ 448,138	\$ 522,844	\$ 468,430	\$ 54,414
Protection to persons and property	3,100	16,089	16,024	65
General health and sanitation	57,578	60,505	59,322	1,183
Social services		84,808	845	83,963
Recreation and culture	34,000	48,482	48,482	
Debt services		206,026	206,027	(1)
Administration	276,012	210,668	206,762	3,906
Total expenditures	\$ 818,828	\$ 1,149,422	\$ 1,005,892	\$ 143,530
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ (48,000)	\$ (271,300)	\$ (188,532)	\$ 82,768
Other financing sources (uses)				
Kentucky Advanced Revenue Program	\$	\$ 203,800	\$ 203,800	\$
Transfers to other funds	(120,000)	(120,000)	(65,177)	54,823

Cumberland County
 Budgetary Comparison Schedules - Major Funds
 Required Supplementary Information -
 Modified Cash Basis
 For the Year Ended June 30, 2005
 (Continued)

General Fund (Continued)				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Total other financing sources (uses)	\$ (120,000)	\$ 83,800	\$ 138,623	\$ 54,823
Net change in fund balance	\$ (91,000)	\$ (187,500)	\$ (49,909)	\$ 137,591
Fund balance - Beginning	168,000	168,000	202,981	34,981
Fund balance - Ending	\$ 77,000	\$ (19,500)	\$ 153,072	\$ 172,572

Road Fund				
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 714,973	\$ 1,002,668	\$ 1,003,314	\$ 646
Miscellaneous			271	271
Interest	5,000	5,000	12,456	7,456
Total revenues	\$ 719,973	\$ 1,007,668	\$ 1,016,041	\$ 8,373
Expenditures				
General government	\$ 9,600	\$ 17,585	\$ 17,585	\$
Transportation and facilities	4,500	5,450	5,029	421
Roads	708,593	936,865	803,545	133,320
Debt service	48,280	59,910	59,319	591
Capital projects	32,500	94,351	94,350	1
Administration	126,527	195,290	88,754	106,536
Total expenditures	\$ 930,000	\$ 1,309,451	\$ 1,068,582	\$ 240,869
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$ (210,027)	\$ (301,783)	\$ (52,541)	\$ 249,242

Cumberland County
Budgetary Comparison Schedules - Major Funds
Required Supplementary Information -
Modified Cash Basis
For the Year Ended June 30, 2005
 (Continued)

	<u>Road Fund (Continued)</u>			
Other financing sources (uses)				
Financing obligation proceeds	\$ _____	\$ <u>62,756</u>	\$ <u>62,756</u>	\$ _____
Total other financing sources (uses)	\$ _____	\$ <u>62,756</u>	\$ <u>62,756</u>	\$ _____
Net change in fund balance	\$ (210,027)	\$ (239,027)	\$ 10,215	\$ 249,242
Fund balance - Beginning	<u>210,027</u>	<u>239,027</u>	<u>239,480</u>	<u>453</u>
Fund balance - Ending	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u>249,695</u></u>	\$ <u><u>249,695</u></u>

Cumberland County
Notes to the Required Supplementary Information

For the Year Ended June 30, 2005

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The State Local Finance Officer does not require the Cumberland County Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances

General fund debt service expenditures and borrowed funds reported on the General Fund Budgetary Comparison Schedule do not agree to the amounts reported in the Statement of Revenues, Expenditures, and changes in Fund Balances – Governmental Funds – Modified Cash Basis because of short-term borrowing of \$203,800. The \$203,800 represents principal and was borrowed and repaid during the 2005 fiscal year and has a zero effect on the fund balance of the General Fund. The Governmental Accounting Standards Board does not permit the recognition of short-term revenue anticipation borrowing on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Modified Cash Basis.

OTHER SUPPLEMENTARY INFORMATION

Cumberland County
Combining Balance Sheet - Non-major Governmental Funds -
Modified Cash Basis
Other Supplementary Information

June 30, 2005

	<u>Special Revenue Funds</u>					<u>Debt Service Fund</u>	
						Public Properties Corporation Justice Center Bond Fund	Total Non-major Funds
	Jail Fund	Local Government Economic Assistance Fund	Grant Fund	Fire Protection Fund			
Assets							
Cash and cash equivalents	\$ 10,025	\$ 19,049	\$ 3,460	\$ 12,095	\$	46	\$ 44,675
Total assets	<u>\$ 10,025</u>	<u>\$ 19,049</u>	<u>\$ 3,460</u>	<u>\$ 12,095</u>	<u>\$</u>	<u>46</u>	<u>\$ 44,675</u>
Fund balances							
Unreserved:							
Special revenue funds	\$ 10,025	\$ 19,049	\$ 3,460	\$ 12,095	\$		\$ 44,629
Debt service fund						46	46
Total fund balances	<u>\$ 10,025</u>	<u>\$ 19,049</u>	<u>\$ 3,460</u>	<u>\$ 12,095</u>	<u>\$</u>	<u>46</u>	<u>\$ 44,675</u>

For The Year Ended June 30, 2005

- 46 -

(Continued)

19,049	\$	3,4
--------	----	-----

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

JONES



RITCHIE, PSC

CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ♦ (859) 269-1949

Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards**

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated July 20, 2006 wherein we issued a qualified opinion on the discretely presented component unit. Cumberland County prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We did not audit the financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Cumberland County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of the Financial Statements Performed
In Accordance with Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumberland County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC
Certified Public Accountants

Audit fieldwork completed –
July 20, 2006

APPENDIX A

CERTIFICATE OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

**Certificate of Compliance
Local Government Economic Assistance Program
Cumberland County, Kentucky**

For The Year Ended June 30, 2005

The Cumberland County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

County Judge/Executive

County Treasurer